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S E C R E T SECTION 01 OF 03 BAGHDAD 004391

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TAGS: [ECON](#) [EINV](#) [IZ](#) [PREL](#)  
SUBJECT: TEXT OF DPM SALIH'S ECONOMIC DOCUMENT FOR AMMAN  
SUMMIT

Classified By: Ambassador Zalmay Khalilzad, Reasons 1.4 (b,d)

¶1. (S) Deputy Prime Minister Barham Salih provided post with a draft of the comments on economic issues he developed for the Prime Minister for the upcoming summit in Amman. In the wide-ranging document, Barham outlines a vision for the development of the petroleum sector, the centrality of the International Compact with Iraq to the development strategy, and improving Iraq's legal and regulatory environment to promote investment and economic growth. The full text is in paragraph 4.

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SCRD  
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¶2. (S) The text also offers additional details about the creation of a Supreme Commission for Reconstruction and Development (SCRD), which would serve to develop and finance investment projects, and take its funding from oil price windfalls, unexecuted funds from the budget, and external assistance. It also outlines in general terms the key steps immediate-term steps for the SCRD to develop plans for key sectors of the Iraqi economy. The SCRD would be able to access stream-lined approval procedures for projects.

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Appeal for Relief of Debt and War Reparations  
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¶3. (S) In the draft, DPM Saleh makes an appeal for Saddam-era debt relief and forgiveness of war reparations, both for the sake of the GOI's fiscal situation as well as with an aim to improving the climate for private sector investment. He notes that even after debt relief from Paris Club nations, Iraq still faces US\$84B in outstanding obligations, and war reparations consume 5 percent of oil revenues.

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Text of the Document  
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¶4. (S) BEGIN TEXT.

Iraq Economic Recovery Program  
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A vital prerequisite for security and political stability is improving the living conditions for all Iraqis. This entails combating poverty, creating employment opportunities and providing essential services. The International Compact with Iraq offers an effective framework for a viable partnership between the Government of Iraq and the International Community in pursuit of the needed economic and political recovery.

The Compact includes a reconstruction program and reform agenda to achieve these goals within the next five years. The recovery program aims to mobilise domestic and foreign, public and private capital to finance strategic investment in key sectors. Major projects in energy, agriculture and infrastructure will be carried out to generate growth and employment, provide essential services and contribute to national unity.

In order to support the implementation of the recovery program and create the environment for private sector investment the Government of Iraq is seeking further reduction in external debt, relief from reparations and fresh investments.

The Government of Iraq inherited an economy ruined by war and sanctions and deformed by mismanagement and corruption. Over three years, working under extreme political and security conditions we managed to lay some of the essential foundation for economic growth and investment. We stabilized the national currency and key macro-economic indicators. With essential support from the US Government we achieved significant debt reductions.

We are building the legal and institutional underpinning of free market economy including an independent Central Bank, financial market institutions, and most recently an investment law which is dedicated to promoting private sector initiative and foreign investment. We are now finalizing a hydrocarbon law, consistent with the Constitution which will clarify mandates and open the way to major foreign investment into the oil and gas sector - the engine of our economy.

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A key to promoting investment is prudential fiscal management. We are successfully carrying out the Stand by Arrangement with the IMF which has just passed its third review. We are completing work on next year's budget which will amount to US 41 BN including US 11 BN in investments. The budget will be consistent with IMF requirements. The shortfall estimated at US 7 BN will be covered by Iraq's own resources including funds accumulated at the Development Fund for Iraq.

Our reform agenda as spelled out in the ICI cover four key areas: Improving the management of public financial resources; building good governance institutions and combating corruption, creating an enabling environment for private sector development and foreign investment; and human development.

Our investment agenda over the next five years devotes special attention to the energy sector as a main driver for growth. Our goal is to develop an energy sector that meets Iraq's needs, maximizes the benefits of hydrocarbons for all Iraqis and reinforces national unity and institutions.

Investments will be carried out on the basis of an Energy Sector Master Plan which will:

- Asses the needs of the oil, gas, and electricity sub-sectors as an interdependent energy complex and determine investment priorities.
- Lays out a plan for the most effective and efficient development of the energy sector;
- Quantifies financing requirements and identifies public and private sources including domestic and foreign investors.

Based on this plan we will aim to raise crude output to 4.3 million barrels per day by 2010. Increase output of refined products to 700,000 barrels per day and achieve self sufficiency in power generation by 2011.

Similar investment plans are envisioned in other key sectors, including agriculture and infrastructure. Overall we stimulate investment requirements needed to meet Iraq essential needs over the next five years to exceed US 170 Billion. Iraq will mobilize US 70-80 Billion of its own resources to meet these needs. The rest will need to be raised from private and public sources.

In order to mobilize financial resources and carry out essential investment we need to address several factors which have so far hampered effective reconstruction. The security environment is key among them and the government is sparing no effort to address this critical factor with the help of our friends and allies. Other impediments include the lack of project execution and management capacity, regulatory and administrative bottlenecks and red tape; bureaucratic inefficiency and corruption. The government of Iraq has embarked on a number of reforms and actions to address those impediments within the framework of the International Compact for Iraq.

To oversee the Economic Recovery Program we will establish a Supreme Commission for Reconstruction and Development (SCRD).

The Commission will develop detailed investment and actions plans; cost Iraq's needs, and quantify the financial and technical resources (public and private) necessary to meet them and oversee the execution of key investment projects of national importance. Commission's activities will be financed among others, from oil price windfalls, budget overhangs resulting from under-performance by line ministries and external assistance.

The SCRD plans and costings will be developed, within the context of the ICI, working together with partners including Iraqi stakeholders, multilateral organizations, international private sector, OIC's, investment banks and management consultants.

SDRD will focus on the sectors that are key to Iraq's economic recovery - in the first instance Energy, Infrastructure and Agriculture, and will produce within six months:

- Specific actions to address key constraints within the government and facilitate execution of major investment projects; and specific actions which could significantly facilitate foreign direct investments and private sector development;
- Master plans for key sectors describing actions and

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investments needed in the next 5 and 10 years to meet agreed targets; investment needs for key sectors anchored in concrete, economically viable projects and programs which are prioritized on the basis of maximized economic rate of return.

- Schedule of public and private investment requirements and sources of financing (including Iraqi financing) along with mechanisms for management and execution of these investments;
- Pipeline of feasibility studies and business plans which can act as a basis for raising financing and enlisting strategic partners for specific projects.

Institutions and regulations will be put in place to support the work of the Commission such as a Strategy Unit, Procurement and Contracting Agencies, and Intergovernmental Structures to facilitate interactions with relevant agencies across government.

A simplified regulatory regime including streamlined procedures for approval and implementation of major investments will enable the Commission to accelerate projects

necessary to kick start recovery. The Commission will operate within a framework of transparency, accountability, fiscal integrity and sustainability.

Working with our friends and allies, the Government of Iraq will seek to match the Recovery Program needs against available sources of finance, technical and managerial assistance.

#### Debt and Reparation Relief

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One of the key areas of assistance which will help accelerate growth in Iraq is debt and reparations relief.

As part of Saddam's legacy, Iraq inherited onerous debts of over US 115 Billion which were largely used by the regime to finance repression at home and aggression abroad. Iraq still allocates 5 percent of its badly needed oil revenues to war reparations.

The Paris Club with 26 countries waived over 80 percent of Iraq's obligations to them which amounted to 31 Billion but Iraq still has outstanding obligations of approximately US 84 Billion, including 8 Billion Paris and 76 Billion non Paris. In 2011 Iraq will have to spend US 4 Billion to service outstanding debt.

Debt and reparations relief can be provided immediately even before the political and economic reforms outlined in the International Compact begin to bear fruit. By improving Iraq's liquidity and credit worthiness debt and reparations relief can provide immediate benefit by allowing Iraq to mobilize private sector support and investment.

Finally, debt and reparation relief is a powerful message to the Iraqi people and the international community signally the end of the Saddam's era and a true sign of solidarity with the Iraqi people - its main victims.

The issues of security and economic recovery are closely intertwined. The lack of security has seriously hampered reconstruction efforts so far. The opposite is also true. Without providing Iraqis with jobs, social security and services, we will not be able to defeat the enemies of Iraq.

END TEXT.

KHALILZAD